

DEPARTMENT OF TRANSPORTATION**AUDITS AND INVESTIGATIONS**

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August 21, 2009

Ms. Ruth Young
Transportation Fiscal Services Manager
El Dorado County – Department of Transportation
2850 Fairlane Court
Placerville, CA 95667

Re: El Dorado County – Department of Transportation
Audit of Indirect Cost Rate Proposal for FY's 2005/06, 2006/07, and 2007/08
File No: P1590-0026

Dear Ms. Young:

We have audited the El Dorado County – Department of Transportation's (EDCDOT) Indirect Cost Rate Proposals (ICRP) for the fiscal years ended June 30, 2006, June 30, 2007 and June 30, 2008 to determine whether the ICRPs are presented in accordance with Title 2 Code of Federal Regulations (CFR) Part 225 (formerly Office of Management and Budget Circular A-87) and the Department of Transportation's (Department) Local Programs Procedures (LPP) 04-10. EDCDOT management is responsible for the fair presentation of the ICRPs. EDCDOT proposed the following indirect cost rates:

<u>Cost Center</u>	<u>FY 05/06</u>	<u>FY 06/07</u>	<u>FY 07/08</u>
SLT Engineering	123.92%	145.44%	119.83%
WS Eng. Const.	71.78%	83.53%	101.34%
WS CAD Unit	89.38%	102.76%	108.95%
WS Design Unit	69.75%	81.84%	89.17%
WS Survey Unit	87.16%	89.92%	96.67%
WS Proj. Del. Unit	74.18%	102.18%	94.54%
WS Right of Way	98.04%	85.59%	111.64%
TP & LD Planning	115.00%	172.06%	159.99%
EDH Engineering		146.83%	128.15%

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of EDCDOT. Therefore, we did not audit and are not expressing an opinion on the EDCDOT's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material noncompliance with fiscal provisions relative to the ICRPs. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by EDCDOT, as well as evaluating the overall presentation.

The accompanying ICRPs were prepared on a basis of accounting practices prescribed in the 2 CFR Part 225 and the Department's LPP 04-10, and is not intended to present the results of operations of EDCDOT in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICRPs, a review of EDCDOT's single audit report for the fiscal years ended June 30, 2006, June 30, 2007, and June 30, 2008, inquiries of EDCDOT personnel and testing of EDCDOT's internal control's and expenditures to the ICRP schedules. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

AUDIT RESULTS

Based on audit work performed, EDCDOT's ICRPs for the fiscal years ended June 30, 2006, June 30, 2007, and June 30, 2008 are presented in accordance with 2 CFR Part 225 and LPP 04-10. The approved indirect cost rates are as follows:

<u>Cost Center</u>	<u>FY 05/06</u>	<u>FY 06/07</u>	<u>FY 07/08</u>
SLT Engineering	123.92%	145.44%	119.83%
WS Eng. Const.	71.78%	83.53%	101.34%
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WS Right of Way	98.04%	85.59%	111.64%
TP & LD Planning	115.00%	172.06%	159.99%
EDH Engineering		146.83%	128.15%

Audit Findings

Finding 1

One of three consultants tested during our compliance testing included a mark-up fee of five percent for subconsultant and other direct costs on their billings to EDCDOT. The mark-up fee is an unsupported cost and results in additional profit to the consultant. The mark-up fees are unallowable.

2 CFR 225, Appendix A, C, 1, j states— Basic Guidelines – Be adequately documented. 49 CFR 18.20 (b)(6) – Source documentation. 49 CFR 18.22 (a) (2) Reasonable fees or profit for cost type contracts but not any fee or profit above allowable costs.

Recommendation:

EDCDOT should determine the amount of mark-up fees on subconstitants and other direct costs it billed to the Department. EDCDOT should reimburse the Department the unallowable mark-up fees.

Auditee's Response: EDCDOT agrees with the finding and has scheduled contracts with consultants using this additional fee. The amount they determined for reimbursement is \$4979.69.

Analysis of Response: The auditee provided a schedule of costs to be reimbursed to the Department however, we have not audited the schedule and Department's Division of Local Assistance (DLA) should assure that the reimbursement amount identified by EDCDOT is accurate per DLA's records.

Finding 2

EDCDOT added a mark-up of 25 percent to total dollars charged per vehicle on projects. The EDCDOT used this as a method of recovering depreciation. EDCDOT was unable to provide financial documents to support the 25 percent mark-up to the depreciation recovery.

2 CFR 225, Appendix B, 11, a, states in part "Depreciation and use allowances are means of allocating the costs of fixed assets to periods benefiting from asset use." b. states in part "The computation of depreciation or use allowance shall be based on the acquisition cost of the assets involved." d. states in part "The period of useful service established in each case for usable capital assets must take into consideration such factors as type of construction, nature of equipment used, historical usage patterns, technological developments, and the renewal and replacement policies of the governmental unit followed for the individual items involved.

2 CFR 225, Appendix A, C, 1, j – Basic Guidelines – Be adequately documented.

Recommendation:

EDCDOT should determine the total vehicle mark-up cost billed to the Department. EDCDOT should reimburse the Department for all unsupported vehicle mark-up costs billed to and reimbursed by the Department.

Auditee's Response: EDCDOT agrees with the finding and has scheduled the 25 percent mark-up amounts charged to invoices. The amount they determined for reimbursement is \$5,739.97.

Analysis of Response: The auditee provided a schedule of costs to be reimbursed to the Department however, we have not audited the schedule and the Departments DLA should assure that the reimbursement amount identified by EDCDOT is accurate per DLA's records.

Finding 3

EDCDOT's contracts with consultants lack critical contract language to protect the interests of EDCDOT. The following should be included in future contracts:

- ❖ In Article II – Term -Specific start and end dates for the contract should be included.
- ❖ In Article III – Compensation for Service - The specific form of reimbursement (Time & Materials, Cost per unit of work, Lump Sum, Cost Plus Fixed Fee) should be specified.
- ❖ In Article III – Compensation for Service - The wording "subject to annual adjustments of no more than ten percent (10%) per year" is vague and could lead to misinterpretation. Recommend stating, "Labor costs should be billed at actual with proof of payroll at the first of the year."
- ❖ In Article XXX – Cost Principles - Budget Circular A-87 should be changed to Title 2 of the Code of Federal Regulations (CFR), Part 225.

Recommendation:


EDCDOT should update the contract language in its consultant contracts.

Auditees Response: Auditee disagrees with the finding and believes the contract language is sufficient for the work being performed.

Analysis of Response: After reviewing the auditees response, we determined that we do not concur with their response therefore the finding will remain. Should the Department perform audits of EDCDOT Consultants and identify unallowable costs, the EDCDOT may have no recourse to seek reimbursement of unallowable consultant costs from its consultants.

This report is intended solely for the information of EDCDOT, Department Management, the California Transportation Commission and the Federal Highway Administration (FHWA). However, this report is a matter of public record and its distribution is not limited.

Please retain the approved Indirect Cost Rate Proposals for your files. Copies were sent to the Department's District 3, the Department's Division of Accounting and the FHWA. If you have any questions, please contact Lisa Moreno, Auditor at (916) 323-7885 or Cliff Vose, Audit Manager, at (916) 323-7917.

 MARYANN CAMPBELL-SMITH
Chief External Audits

Attachments

- c: Brenda Bryant, Director, Financial Services, Federal Highway Administration
Sue Kiser, Director, Planning and Air Quality, Federal Highway Administration
Dan Mundy, Branch Chief, Rural Transit and Procurement, Division of Mass
Transportation
David Saia, Senior Transportation Engineer, Policy Development and Quality
Assurance, Division of Local Assistance
Jenny Tran, Associate Account Analyst, Local Program Accounting Branch,
Local Assistance
Andrew Knapp, Associate Transportation Planner, Regional and Interagency
Planning, Division of Transportation Planning
Ben Bramer, Local Assistance Engineer, District 3



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JAMES W. WARE, P.E.
Director of Transportation

Internet Web Site:
<http://co.el-dorado.ca.us/dot>

MAIN OFFICE:
2850 Fairlane Court
Placerville CA 95667
Phone: (530) 621-5900
Fax: (530) 626-0387



El Dorado County Department of Transportation Indirect Cost Plan

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Department), subject to the conditions in Section II. This plan was prepared by the County of El Dorado Department of Transportation and approved by Department.

SECTION I: Rates

<u>Rate Type</u>	<u>Effective Period</u>	<u>Rate*</u>	<u>Applicable To</u>
Final	7/1/05 to 6/30/06	Please see attached rate schedule	

*Base: Total Direct Salaries and Wages plus fringe benefits

SECTION II: General Provisions

A. Limitations:

The rates in this agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted; such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government or Department. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government or Department; (5) Prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) This rate is based on actual costs incurred during the period.

B. Accounting Changes:

This agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs, which affect the amount of reimbursement resulting from the use of this Agreement require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

C. Final Rate with Carry Forward:

The final rates used in this Agreement are based on actual costs for the period covered by the rates. No over or under recovery will be carried forward to subsequent indirect cost rate calculations.

D. Audit Adjustments:

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

E. Use by Other Federal Agencies:

Authority to approve this agreement by Department had been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to the Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant agency.

The approval will also be used by Department in State-only funded projects.

F. Other:

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

G. Rate Calculation

See attached.

CERTIFICATION OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in this proposal to establish billing or final indirect costs rates for fiscal year 2006 (July 1, 2005 to June 30, 2006) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.
- (2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and Department will be notified of any accounting changes that would affect the predetermined rate.

I declare that the foregoing is true and correct.

Governmental Unit: El Dorado County Department of Transportation

Signature:

Signature:

Reviewed, Approved and Submitted By:

Prepared by:

Name of Official: Ruth Young

Name of Official: Laura Friestad

Title: Chief Fiscal Officer

Title: Supervising Accountant/Auditor

Date of Execution: 8/17/09

Phone: (530) 621-5923

INDIRECT COST RATE APPROVAL

The State DOT has reviewed this indirect cost plan and hereby approves the plan.

Signature

Reviewed and Approved by:

Reviewed and Approved by:

Teresa Greisen

Lisa Moreno

Name of Audit Manager

Name of Auditor

Title: Sr. Management Auditor

Title: Associate Management Auditor

Date: 8/20/09

Date: 8/20/09

Phone Number: (916) 323-7410

Phone Number: (916) 323-7885

**El Dorado County Department of Transportation
Indirect Cost Plan (Attachment)**

<u>Rate Type</u>	<u>Effective Period</u>	<u>Rate</u>	
Final	7/1/05 to 6/30/06	SLT Engineering	123.92%
		WS Eng. Const.	71.78%
		WS CAD Unit	89.38%
		WS Design Unit	69.75%
		WS Survey Unit	87.16%
		WS Proj. Del. Unit	74.18%
		WS Right of Way	98.04%
		TP & LD Planning	115.00%



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SECTION I: Rates

<u>Rate Type</u>	<u>Effective Period</u>	<u>Rate*</u>	<u>Applicable To</u>
Final	7/1/06 to 6/30/07	Please see attached rate schedule	

*Base: Total Direct Salaries and Wages plus fringe benefits

SECTION II: General Provisions

A. Limitations:

The rates in this agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted: such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government or Department. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government or Department; (5) Prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) This rate is based on actual costs incurred during the period.

B. Accounting Changes:

This agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs, which affect the amount of reimbursement resulting from the use of this Agreement require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

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Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

E. Use by Other Federal Agencies:

Authority to approve this agreement by Department had been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to the Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant agency.

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F. Other:

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

G. Rate Calculation

See attached.

CERTIFICATION OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in this proposal to establish billing or final indirect costs rates for fiscal year 2007 (July 1, 2006 to June 30, 2007) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.
- (2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and Department will be notified of any accounting changes that would affect the predetermined rate.

I declare that the foregoing is true and correct.

Governmental Unit: El Dorado County Department of Transportation

Signature:

Signature:

Reviewed, Approved and Submitted by:

Prepared by:

Name of Official: Ruth Young

Name of Official: Laura Friestad

Title: Chief Fiscal Officer

Title: Supervising Accountant/Auditor

Date of Execution: 8/17/09

Phone: (530) 621-5923

INDIRECT COST RATE APPROVAL

The State DOT has reviewed this indirect cost plan and hereby approves the plan.

Signature

Reviewed and Approved by:

Teresa Greisen

Name of Audit Manager

Reviewed and Approved by:

Lisa Moreno

Name of Auditor

Title: SR. Mngmt Auditor

Title: Assoc. Mngmt Auditor

Date: 8/20/09

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Phone Number: (916) 323-7910

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*Base: Total Direct Salaries and Wages plus fringe benefits

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B. Accounting Changes:

This agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs, which affect the amount of reimbursement resulting from the use of this Agreement require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

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G. Rate Calculation

See attached.

CERTIFICATION OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in this proposal to establish billing or final indirect costs rates for fiscal year 2008 (July 1, 2007 to June 30, 2008) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.
- (2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and Department will be notified of any accounting changes that would affect the predetermined rate.

I declare that the foregoing is true and correct.

Governmental Unit: El Dorado County Department of Transportation

Signature:

Signature:

Reviewed, Approved and Submitted By:

Prepared by:

Name of Official: Ruth Young

Name of Official: Laura Friestad

Title: Chief Fiscal Officer

Title: Supervising Accountant/Auditor

Date of Execution: 8/17/09

Phone: (530) 621-5923

INDIRECT COST RATE APPROVAL

The State DOT has reviewed this indirect cost plan and hereby approves the plan.

Reviewed and Approved by:

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Teresa Greisen

Lisa Moreno

Name of Audit Manager

Name of Auditor

Title: Sr. Mgmt. Auditor

Title: Assoc. Mgmt. Auditor

Date: 8/20/09

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Phone Number: (916) 323-7910

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Indirect Cost Plan (Attachment)**

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